

General journal

A Journal entry is the first step of the accounting or book-keeping process. In this step, all the accounting transactions are recorded in **general journal** in a chronological order. The general journal is maintained essentially on the concept of double entry system of accounting, where each transaction affects at least two accounts.

Other names used for general journal are “journal book” and “book of original entry”.

The process of making a journal entry

The first step in the process of preparing a journal entry is to analyze the accounts involved in a business transaction and then apply the rules of debit and credit based on the type of each account. After identifying the accounts involved in the transaction and deciding upon the applicable rules, the journal entry is recorded in the general journal in a specified format which includes the following details:

1. Date of transaction
2. Ledger accounts involved
3. Amount of transaction
4. A brief narration to describe the transaction

Format of general journal

Let’s understand the format of general journal and the process of making a journal entry through an illustration.

Transaction:

January 05: Purchase of machinery by making cash payment of \$15,000.

Analysis of transaction:

<u>Account involved</u>	<u>Type of account</u>	<u>Increase/decrease</u>	<u>Debit/credit</u>
Machinery	Asset	Increase	Debit
Cash	Asset	Decrease	Credit

Recording journal entry:

According to rules of debit and credit, when an asset increases, its account is debited and when an asset decreases, its account is credited. In this transaction, machinery (an asset) is increasing, and cash (an asset) is decreasing. So the journal entry would be made as follows:

Date	Account titles and explanation	Debit	Credit
2015			
Jan. 05	Machinery	15,000	
	Cash		15,000
	(Purchased machinery by paying cash)		

1. Date 2. Ledger accounts involved 3. Narration to describe transaction 4. Amount of transaction

All business transactions are recorded in the general journal in a manner illustrated above. After making journal entries in the journal, they are periodically posted to the ledger accounts.

Example:

The Moon Service Inc. engaged in the following transactions during the month of November 2015:

- Nov. 01: Issued 20,000 shares of common stock at \$20 per share
- Nov. 03: Paid office rent for the month of November \$500.
- Nov. 06: Purchased office supplies \$250.
- Nov. 12: Purchased office equipment on account \$4,500
- Nov. 16: Purchased business car for \$25,000. Paid \$10,000 cash and issued a note for the balance.
- Nov. 21: Billed clients \$24,000 on account.
- Nov. 25: Declared dividends \$3,000. The amount of dividends will be distributed in December.
- Nov. 28: Paid utility bills for the month of November \$180.
- Nov. 29: Received \$20,000 cash from clients billed on November 21.
- Nov. 30: Paid salary for the month of November \$7,500

Required: Record the above transactions in a general journal.

Solution:

MOON SERVICES INC.
General Journal
For the Month of November 2015

Date	Account title and explanation	Debit	Credit
<u>2015</u>			
Nov. 01	Cash Capital stock (Issued 20,000 shares of common stock at \$20 per share)	400,000	400,000
Nov. 03	Office rent expense Cash (Paid office rent for the month of November)	500	500
Nov. 06	Office supplies Cash (Purchased office supplies for cash)	250	250
Nov. 12	Office equipment Accounts payable (Purchased office equipment on account)	4,500	4,500
Nov. 16	Vehicle Cash Notes payable (Purchased company vehicle; paid \$10,000 cash and issued a \$15,000 note payable for the balance)	25,000	25,000
Nov. 21	Accounts receivable Service revenue (Billed clients on account)	24,000	24,000
Nov. 25	Dividends Dividends payable (Dividends declared to be distributed in December)	3,000	3,000
Nov. 28	Utilities expense Cash (November utilities paid in cash)	180	180
Nov. 29	Cash Accounts receivable (Collected cash from clients billed on November 21)	20,000	20,000
Nov. 30	Salaries expense Cash (Paid salary expense for November)	7,500	7,500